

GRACE

Construction Products Division

NEW BRUNSWICK, N.J. 08902

TO: J. A. Danneker
R. M. Vining
R. C. Walsh

DATE: July 27, 1983

FROM: R. J. Bettacchi

SUBJECT: July 1983 Monthly Report

cc: R. C. Abernathy
H. C. Duecker
Marketing Department (14)
B. J. Mees/Zono Ajax
Regional Managers (5)
B. Siadat
D. L. Wightman
J. W. Wolter

I. Summary

- o Tremolite contamination of vermiculite-based products continues as a pregnant issue in the marketplace. While the tremolite content of Monokote is, at present, the most significant aspect of this problem (because of the New York/Goldfarb situation), we continue to receive calls and letters on other products including Attic and Masonry Insulation. It is clear that our competition is making "good" use of the recent article in Exposure. We are presently handling these requests on an individual basis and are looking at a more general approach.
- o Estimates of Monokote volume derived from the regression model based on steel office and bank contract awards are dramatically higher than actual results (deviation of the twelve-month moving total through July is 28%). While we believe that we have lost some market share to Cafco in the past twelve months, we believe this loss in market share is small relative to the total deviation. We will update the model to find the reason for the discrepancy. We will also attempt to better define our loss in market share.
- o We have recently lost 230,000 bags of Monokote volume in the Midwest Region on 3 jobs because of uncompetitive thicknesses relative to Cafco. Cafco has recently run new tests at UL which reduces the amount of Cafco material necessary on some specific designs to obtain a given fire rating. This results in a disadvantage of 10 to 13% higher material requirements for Monokote for the same designs. In the short run, we are going back to the applicator with a proposal which would offer him free material for the incremental requirements. For the longer term, we are putting together an active fire-test program to re-gain the initiative from Cafco.

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- o The first high-pressure pumping job with the modified MK5-SG formulation on the East Coast started last week with the 49th Street Tower being sprayed by Patti & Sons. While it is only two days into the job, initial feedback on the performance of the modified SG is good. No hanging problems were observed in either the scratch or brown coat, and pumping pressures were reported to be 100 psig lower than pressure with standard Monokote (750 psig). On the basis of the initial results, Patti wanted to convert his other jobs to the SG formula because of lower pump pressures.
- o Our marketing/sales activities with Owens-Corning were relatively heavy during the month as we had several visits with OC Supply to discuss their interest in and capability of distributing Thermostud, Polycel dB Plus, and Polycel aerosol products. We also met with the product management of their fiber-glass business to discuss a joint promotional activity of their Thermal-Crafted Home concept. Owens-Corning's promotion of a Thermal-Crafted Home requires builders to control air infiltration in order to achieve Owens-Corning's rating. Response from Owens-Corning was favorable on all potential activities.
- o Except for the Midwest Region, introduction of the T-clip program was completed during the month. The program consists of a coordinated PR, direct mail, and space advertising campaign directed towards gaining distribution and convincing contractors of the lower installation cost of Thermostud when using the T-clip. We anticipate seeing improved results in the Thermostud product line by year's end.
- o Shipments of Polycel during the month were strong, reflecting the bulk of the Cotter orders which were shipped to replace the Insta-Foam inventory. The Professional business on a year-to-date basis, is significantly ahead of prior year in all Regions except Texas (which accounted for more than 50% of volume in 1982). Decreased housing starts and increased competition have impacted the Texas market. We are addressing the competitive problem and hope to re-gain lost business by year's end. On a regional note, we anticipate that passage of Title 24 in California (requiring air infiltration control in new construction) will have significant impact on Polycel growth in 1984.
- o The Attic Campaign was "kicked off" in the Eastern and Central Regions during the month. The campaign this year is a significant departure from the past and features a significant attempt to "pull" the product through distribution. This is being done with a combination of a very aggressive Co-op Advertising Program, along with consumer rebates. The program was enthusiastically received by both Regions.
- o Polystyrene Bead price increase was announced in July (effective September 1, 1983). This price increase will result in an effective \$.04 per lb. increase on average. Based on the price increase, we have passed revised pricing guidelines for Polystyrene onto the Regional Managers. We will still maintain a minimum 15% gross margin on Plainboard.

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- o Imperial Chemical Industry (ICI) has developed and patented new technology to manufacture foams and coatings based on vermiculite. We have duplicated their approach in the Lab and find materials with interesting properties. ICI has met with us in the past to "whet" our appetite but has never pursued a concrete proposal. I plan to meet with ICI in an attempt to determine their plans and to determine if we can or should license their technology.
- o SBO treated vermiculite will be shipped to the Wilder Plant for 3 months to confirm the yield improvements, determine finished product performance, and establish air sampling data. Although previous results showed no yield improvement with SBO treated at Enoree, recent samples in which wet Enoree concentrate was shipped to Libby for treatment showed a 7.6% yield improvement. We believe that the previous non-performance was due to over-drying the concentrate at Enoree, thereby retarding the effectiveness of SBO treatment.
- o Sales of concentrate to the gypsum companies are further threatened (we lost 4,000 tons to Virginia Vermiculite) as Bill Strong is attempting to get African Vermiculite approved by U. S. Gypsum. If successful, he would likely have a freight advantage to the West Coast as we are shipping all USG plants from South Carolina. USG will not take concentrate from Libby due to the label on the railroad cars.
- o Licensing of Zonolite/Vermiculite products to the Mid East is progressing. The attorney for Gosabi plans to be in Cambridge to discuss terms in the near future. However, in "typical" Saudi fashion, they have not yet given us concrete responses to our proposal. On a second front, we are having discussions with two United Kingdom firms (IMC and Thermoduric, Ltd.) to take a manufacturing license on Monokote from us in the United Kingdom and Western Europe.
- o Sales of Serviwrap products are strong relative to last year and relative to the market which is significantly depressed. However, 78.1% of the sales in the first seven months were to 3 customers (Transco, Brown & Root, and CMM), who specify only Serviwrap. We do not get much business where Serviwrap is an "or equal" as the product is more difficult to apply than competitive products, and contractors do not use Serviwrap unless they have to.
- o Litigation activity in the Roof Deck area appears to have slowed as no new cases have been filed since April. Of the 8 cases filed year-to-date in 1983 (compared to 11 and 13 in 1982 and 1981, respectively), 5 were with Celotex. Of the 44 activity cases, 19 are with Celotex against whom we recently went to trial with favorable results (Celotex \$160,000--GRACE \$0). Our position, relative to the BUR manufacturers, appears to be getting stronger as we develop a strong technology base for our arguments and as we learn how to more effectively approach the litigation/negotiation activities.

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- o Asbestos-related litigation has become a rapidly growing activity as we are now "on the list" of several defendant's attorneys. Forty-four bodily injury cases were added in July alone bringing the activity case load to 153. This accelerating increase in case load is beginning to tax our resources from an administrative as well as activity standpoint. We have not yet been able to consolidate the litigation activities as planned and consolidation does not appear likely in the near future.

II. Sales and Margin Summary

July gross sales for non waterproofing, non roofing Building Products are \$1223M (19%) unfavorable to budget and \$230M (4%) unfavorable to July 1982. The bulk (94%) of the under run is due to the shortfall (\$1147M) in Fireproofing as the behind budget performance in General Insulation Products (\$231) and Polycel (\$135) is essentially offset by gains in Serviwrap (\$58M) and Export (\$230). While some of the Fireproofing shortfall is due to loss in Monokote market share, and some is due to a construction strike in Southern California, the biggest part of the problem stems from the "aggressive" budget based on the Monokote regression model. The budget problem will plague us throughout 1983.

Year-to-date gross sales for these products are \$7143M (18%) unfavorable to budget and \$2270M (6%) unfavorable to prior year. The largest part (73.3)% of the Y-T-D under run is also due to Monokote (\$5237M). However, the Y-T-D under run in General Insulation (\$1365M), Polycel (\$965M), and Ore to Outsiders (\$227M) is only partially offset by above budget performance in Serviwrap (\$164M) and Export (\$487M).

On a Y-T-D basis, the gross margin under run for all products is \$3250M or 18%. The present under run in margin is the same as the % under run in sales, indicating that pricing and mix are not causing margin erosion. (Actual gross margin is 45.1% compared to budget of 45.2%.)

Key Sales and Margin Statistics are detailed in Tables I, II, and III attached.

(Tables I, II, and III follows)

III. Product Line Details

Product Line Details are included in the attached reports.


Robert J. Bettacchi

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Attachments

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TABLE I
KEY SALES AND MARGIN STATISTICS

		(1)	(2)	(3)	(4)	(5)
		% Variance				
		1983A	1983B	1982A	1983A vs 1983B	1983A vs 1982A
		JULY 83 GROSS SALES (\$000)				
(1)	FIREPROOFING	2511	3658	3267	(31)	(23)
(2)	GENERAL INSULATION	1457	1688	1411	(14)	3
(3)	POLYCEL	366	501	289	(27)	27
(4)	ORE TO OUTSIDERS	332	331	334	0	(1)
(5)	SERVIWRAP	158	100	20	58	673
(6)	EXPORT	318	88	52	261	515
(7)	TOTAL	5143	6366	5373	(19)	(4)
		Y-T-D JULY 83 GROSS SALES (\$000)				
(8)	FIREPROOFING	18195	23432	21249	(22)	(14)
(9)	GENERAL INSULATION	9258	10623	9699	(13)	(5)
(10)	POLYCEL	1837	2802	1724	(34)	7
(11)	ORE TO OUTSIDERS	2344	2571	2104	(9)	11
(12)	SERVIWRAP	584	420	146	39	300
(13)	EXPORT	1095	608	660	80	66
(14)	TOTAL	33312	40455	35582	(18)	(6)
		JULY 83 GROSS MARGIN(\$000)				
(15)	FIREPROOFING	1165	1724	1340	(32)	(13)
(16)	GENERAL INSULATION	587	665	555	(12)	6
(17)	POLYCEL	189	270	142	(30)	33
(18)	ORE TO OUTSIDERS	197	202	188	(3)	5
(19)	SERVIWRAP	74	47	11	57	595
(20)	EXPORT	105	36	18	192	484
(21)	TOTAL	2317	2944	2254	(21)	3
		Y-T-D JULY 83 GROSS MARG.(\$000)				
(22)	FIREPROOFING	8358	10828	8680	(23)	(4)
(23)	GENERAL INSULATION	3646	4005	3730	(9)	(2)
(24)	POLYCEL	935	1493	850	(37)	10
(25)	ORE TO OUTSIDERS	1391	1529	1273	(9)	9
(26)	SERVIWRAP	285	191	73	50	291
(27)	EXPORT	411	232	264	77	56
(28)	TOTAL	15028	18278	14869	(18)	1

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TABLE II
KEY PRODUCT LINE DATA - JULY 1983

		(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)		(11)	(12)	(13)	(14)	(15)
VOLUME (000 Units)						GROSS SALES (\$000)					GROSS MARGIN (\$000)							
% Variance						% Variance					% Variance							
83A 83B 82A 83Ato 83B 82A						83A 83B 82A 83Ato 83B 82A					83A 83B 82A 83Ato 83B 82A							
FIREPROOFING																		
(1)	Monokote	379	552	538	(31)	(29)	2383	3545	3149	(33)	(24)	1101	1881	1274	(34)	(14)		
(2)	3300	6	5	6	28	(1)	102	76	90	34	14	53	39	47	37	13		
(3)	Other	1	3	3	(57)	(48)	16	36	28	(55)	(41)	11	25	19	(58)	(42)		
(4)	TOTAL	NA	NA	NA	NA	NA	2511	3658	3267	(31)	(23)	1185	1724	1340	(32)	(13)		
GENERAL INSULATION																		
(5)	Attic	25	32	33	(21)	(23)	85	108	100	(22)	(15)	43	55	47	(21)	(8)		
(6)	Roofing	208	183	184	8	14	736	709	644	4	14	289	298	270	(3)	7		
(7)	Indust.	49	80	55	(18)	(12)	202	258	199	(22)	1	105	134	81	(21)	18		
(8)	Other Varn	15	14	19	9	(22)	74	69	88	7	(18)	43	42	50	2	(14)		
(9)	ThStSy	821	1283	753	(38)	9	133	207	120	(36)	11	50	69	42	(27)	19		
(10)	Plaintd	2184	3158	2400	(31)	(9)	186	294	217	(37)	(14)	44	55	44	(20)	1		
(11)	Other P/S	NA	NA	NA	NA	NA	42	42	42	(1)	(1)	12	13	12	(11)	(3)		
(12)	TOTAL	NA	NA	NA	NA	NA	1457	1888	1411	(14)	3	587	685	555	(12)	8		
POLYCEL																		
(13)	Profess.	30	30	33	(41)	(10)	150	251	148	(40)	1	81	148	78	(45)	7		
(14)	Consumer	38	30	NA	30	NA	179	155	102	15	74	90	76	49	19	83		
(15)	Indust.	7	11	8	(31)	(15)	34	50	38	(32)	(12)	18	25	17	(34)	(8)		
(16)	Two-Comp	1	9	0	(81)	NA	4	45	0	(92)	NA	1	20	0	(84)	NA		
(17)	TOTAL	NA	NA	NA	NA	NA	386	501	288	(27)	27	189	270	142	(30)	33		
ORE to OUTSIDE (Tons)																		
(18)	Licenses	1282	1800	1508	(28)	(18)	125	173	142	(28)	(12)	78	107	84	(28)	(10)		
(19)	Gypsum Co	1252	900	1838	38	(35)	118	83	125	42	(8)	71	49	84	45	9		
(20)	Agricul.	470	0	373	NA	26	28	0	20	NA	30	10	0	10	NA	4		
(21)	All Other	812	700	448	(13)	37	84	75	47	(15)	35	40	48	28	(14)	35		
(22)	TOTAL	3826	3400	4324	7	(16)	332	331	334	0	(1)	197	202	188	(3)	5		
SERVICING																		
(23)	P300-500	205	180	47	28	334	85	58	15	13	332	30	28	4	5	290		
(24)	W50	80	30	2	204	4911	77	25	2	208	4718	38	11	1	240	4717		
(25)	Other	NA	NA	NA	NA	NA	15	17	4	(11)	313	7	8	1	(17)	372		
(26)	TOTAL	NA	NA	NA	NA	NA	158	100	20	58	873	74	47	11	57	585		
EXPORT																		
(27)	Intracomp	NA	NA	NA	NA	NA	184	0	16	NA	1138	54	0	4	NA	1175		
(28)	Zonolite	NA	NA	NA	NA	NA	35	72	14	(51)	158	13	30	8	(57)	120		
(29)	Peters	NA	NA	NA	NA	NA	89	18	22	453	57	38	6	8	525	382		
(30)	TOTAL	NA	NA	NA	NA	NA	318	88	52	261	515	105	36	18	182	484		
(31)	TOTAL	NA	NA	NA	NA	NA	5143	6386	5373	(19)	(4)	2317	2844	2254	(21)	3		

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TABLE III
KEY PRODUCT LINE DATA - JULY 1983 YTD

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
		VOLUME (000 Units)					GROSS SALES(\$000)					GROSS MARGIN(\$000)				
		% Variance					% Variance					% Variance				
		83A	83B	82A	83Ato 83B	82A	83A	83B	82A	83Ato 83B	82A	83A	83B	82A	83Ato 83B	82A
(1)	FINEPROOFING															
(2)	Parakote	2700	3008	3574	(23)	(22)	17476	22755	20617	(23)	(15)	7974	10463	8330	(24)	(4)
(3)	3300	26	33	32	(22)	(21)	419	531	482	(21)	(13)	192	285	247	(28)	(22)
(4)	Other	25	13	13	96	92	301	146	150	107	101	192	100	103	93	87
(5)	TOTAL	NA	NA	NA	NA	NA	18185	23432	21249	(22)	(14)	8350	10828	8680	(23)	(4)
(6)	GENERAL INSULATION															
(7)	Attic	285	288	337	(1)	(15)	903	914	1037	(1)	(13)	428	428	480	1	(11)
(8)	Plasma	1150	1088	1147	8	0	4002	3884	3926	4	2	1537	1543	1582	0	(3)
(9)	Indust.	380	455	408	(14)	(4)	1581	1835	1540	(14)	3	787	898	733	(11)	9
(10)	OtherVarn	78	88	105	(14)	(28)	368	429	477	(14)	(23)	210	253	267	(17)	(21)
(11)	ThStSy	3548	8180	5248	(32)	8	888	1322	854	(33)	4	333	434	294	(23)	13
(12)	Plastrid	15141	21235	17288	(29)	(12)	1293	1975	1578	(35)	(18)	276	383	278	(24)	(1)
(13)	Other P/S	NA	NA	NA	NA	NA	223	284	288	(21)	(22)	88	87	84	(24)	(21)
(14)	TOTAL	NA	NA	NA	NA	NA	8258	10823	9889	(13)	(5)	3846	4005	3730	(9)	(2)
(15)	POLYCEL															
(16)	Profess.	188	248	287	(32)	(18)	887	1242	748	(30)	18	472	735	488	(38)	18
(17)	Consumer	138	188	NA	(28)	NA	852	975	887	(33)	(5)	328	478	314	(32)	4
(18)	Indust.	54	80	85	(32)	(17)	252	381	289	(34)	(13)	121	190	127	(38)	(5)
(19)	Two-Comp	12	38	0	(68)	NA	85	205	0	(88)	NA	17	80	0	(81)	NA
(20)	TOTAL	NA	NA	NA	NA	NA	1837	2802	1724	(34)	7	935	1483	850	(37)	10
(21)	ONE to OUTSIDERS (Yarn)															
(22)	Licenses	8530	8800	8805	(11)	(11)	828	824	871	(11)	(5)	902	988	918	(12)	(3)
(23)	Cymam Co	10480	8700	8542	8	10	981	888	788	8	25	588	525	485	12	19
(24)	Agricul.	2758	2800	2283	8	22	152	147	123	3	24	58	58	57	0	4
(25)	All Other	3548	8000	3138	(41)	13	385	804	322	(38)	19	241	375	282	(38)	18
(26)	TOTAL	25316	27800	24548	(9)	3	2344	2571	2104	(9)	11	1391	1529	1273	(9)	8
(27)	SERVIMAP															
(28)	P300-900	917	718	388	28	148	328	247	134	33	144	182	114	88	43	138
(29)	V850	248	125	3	97	8346	214	105	2	183	9412	106	47	1	125	8848
(30)	Other	NA	NA	NA	NA	NA	42	88	9	(38)	345	18	31	4	(42)	381
(31)	TOTAL	NA	NA	NA	NA	NA	584	420	148	38	300	285	181	73	90	281
(32)	EXPORT															
(33)	Intracomp	NA	NA	NA	NA	NA	352	0	178	NA	100	98	0	88	NA	48
(34)	Zenolite	NA	NA	NA	NA	NA	500	504	383	(1)	38	210	184	161	8	30
(35)	Peters	NA	NA	NA	NA	NA	243	104	121	135	101	104	38	37	173	178
(36)	TOTAL	NA	NA	NA	NA	NA	1095	808	880	80	86	411	232	284	77	58
(37)	TOTAL	NA	NA	NA	NA	NA	33312	40455	35582	(18)	(6)	15028	18278	14888	(18)	1

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